

## Message Text

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ORIGIN EUR-06

INFO OCT-01 ISO-00 /007 R

66630

DRAFTED BY: EUR/RPE: F. KINNELL

APPROVED BY:EUR/RPE: M. LEVINE

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R 131712Z SEP 73

FM SECSTATE WASHDC

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FOLLOWING REPEAT TOKYO 11784 SENT ACTION SECSTATE SEPT. 12:

QUOTE

UNCLAS TOKYO 11784

SHUTO 13

PLEASE PASS CEA, TREASURY, STR

E.O. 11652: N/A

TAGS: OVIP (SHULTZ, GEORGE)

SUBJECT: NEWS CONFERENCE OF MR. STEIN

1. FOLLOWING IS TEXT OF NEWS CONFERENCE BY DR. STEIN,  
HELD AT THE TOKYO AMERICAN CENTER, SEPTEMBER 12, 1400  
HOURS LOCAL.

DR. STEIN:

I WILL GIVE A BRIEF PICTURE OF THE STATE OF THE AMERICAN ECONOMY  
AND ITS PROSPECTS AS WE SEE THEM, AND THEN INVITE YOUR QUESTIONS.

WE HAVE BEEN HAVING A VERY STRONG EXPANSION OF THE U.S. ECONOMY  
IN REAL TERMS. WE HAVE HAD AN INCREASE OF EMPLOYMENT OF  
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ALMOST 3 MILLION IN THE PAST YEAR; A DECLINE OF UNEMPLOYMENT

FROM ABOUT 5.7 OR SO TO ABOUT 4.8 WHICH WEAS OUR LATEST FIGURE.

TOTAL OUTPUT HAS RISEN BY ABOUT 5 OR 6 PER CENT, DEPENDING ON THE MEASUREMENT. AND THE REAL INCOMES OF THE AMERICAN PEOPLE, ALTHOUGH WE HAVE A GREAT DEAL OF CONCERN ABOUT THIS; NEVERTHELESS THE REAL INCOMES OF THE AMERICAN PEOPLE HAVE RISEN QUITE SUBSTANTIALLY IN THE PAST YEAR, DESPITE THE INFLATION, BECAUSE INCOMES HAVE BEEN RISING MORE RAPIDLY THAN PRICES HAVE BEEN RISING - EVEN THOUGH PRICES ARE RISING AT WHAT FOR US IS A QUITE EXTRA-ORDINARY RATE. ILL COME BACK TO THE INFLATION QUESTION IN A MOMENT.

NOW THIS EXPANSION OF THE REAL ECONOMY WE KNOW CANNOT CONTINUE AT THE RATE OF THE PAST YEAR OR SO. WE THINK OF OUR NORMAL RATE OF EXPANSION: THE RATE OF EXPANSION THAT WE CAN CONTINUE OVER THE LONG RUN AS BEING SOMETHING LIKE 4 PER CENT PER ANNUM, AND WE THINK WE HAVE TO GET DOWN AT LEAST TO THAT, AND WE EXPECT THAT WE WILL GET DOWN. THAT THE RATE OF INCREASE OF THE AMERICAN ECONOMY IN REAL TERMS WILL DECLINE BETWEEN NOW AND 1974.

THERE IS SOME DIFFERENCE OF VIEW ABOUT HOW SERIOUS THIS SLOWDOWN IS LIKELY TO BE, HOW BIG IT IS LIKELY TO BE. BUT NOBODY FORESEES ANYTHING VERY SEVERE. OUR OWN ESTIMATE IS THAT THE ECONOMY WILL RUN DURING 1974 AT A LITTLE LESS THAN ITS NORMAL RATE OF GROWTH, THAT IS A LITTLE LESS THAN THIS 4 PERCENT PROBABLY. BUT THEN WE'LL RESUME A STEADY RATE OF GROWTH IN THE 4 PERCENT NEIGHBORHOOD.

THE PROBLEM THAT HAS BEEN CONCERNING US, AS IT HAS BEEN CONCERNING ALL THE INDUSTRIAL ECONOMIES HAS BEEN THE PROBLEM OF INFLATION.

DURING 1972, AS A RESULT OF A VARIETY OF POLICIES AND CONDITIONS, WE GOT OUR INFLATION RATE DOWN TO THE RANGE OF 3 TO 3-1/2 PER CENT AND THAT WAS QUITE AN OUTSTANDING ACHIEVEMENT BY COMPARISON WITH WHAT WAS GOING ON IN THE REST OF THE WORLD AND BY COMPARISON WITH OUR OWN EXPERIENCE OF THE IMMEDIATE PREVIOUS PERIOD.

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HOWEVER, FROM THE BEGINNING OF 1973, WE HAVE HAD A VERY RAPID SURGE OF INFLATION, THE RATE OF INCREASE OF OUR CONSUMER PRICES FROM DECEMBER TO JULY -- WHICH IS THE LAST FIGURE WE HAVE -- WAS ABOUT 7-1/3 PER CENT. THAT WAS MORE THAN DOUBLE WHAT IT HAD BEEN IN 1972, AND THE WHOLESALE PRICES WERE ALSO RISING VERY RAPIDLY.

AS WE LOOK BACK ON THIS EXPERIENCE, THERE SEEM TO HAVE BEEN FOUR MAIN CAUSES OF THIS SURGE OF INFLATION.

THE FIRST, AND PROBABLY THE MOST IMPORTANT, WAS THE WORLDWIDE FOOD SHORTAGE. THERE WAS A VERY LARGE DECLINE IN THE WORLD OUTPUT OF GRAINS, AND IN THE UNITED STATES WE HAD AN ABSOLUTE DECLINE IN THE PER CAPITA SUPPLY OF FOOD IN THE FIRST HALF OF 1973, WHICH IS SOMETHING THAT ALMOST NEVER HAPPENS IN THE UNITED STATES. AND SO WE HAD A GREAT LEAP OF FOOD PRICES, AND THE INCREASE OF FOOD PRICES ACCOUNTED FOR ABOUT 50 PERCENT OF THE INFLATION IN CONSUMER PRICES IN THE FIRST HALF OF THE YEAR.

A SECOND FACTOR WAS THE VERY STRONG BOOM IN THE AMERICAN ECONOMY DURING THE WINTER OF '72/'73 WHICH BROUGHT MANY BASIC INDUSTRIES UP TO, OR VERY CLOSE TO, THEIR TOTAL CAPACITY TO PRODUCE.

A THIRD ELEMENT WAS THE DEVALUATION OF THE U.S. DOLLAR WHICH INCREASED THE COST IN DOLLARS OF THINGS THAT WE BUY ABROAD, AND ALSO TENDED TO INCREASE U.S. PURCHASES, UH FOREIGN PURCHASES OF U.S. COMMODITIES, AND TENDED TO BOOST THEIR PRICES.

AND THE FOURTH ELEMENT WAS THE QUITE UNUSUAL COMBINATION OF STRONG EXPANSION IN THE OUTSIDE WORLD, INCLUDING JAPAN AND WESTERN EUROPE.

WE EXPECT THAT WE WILL SEE FOR SOME MONTHS AHEAD THE EFFECT OF THESE FOUR FACTORS IN VARIOUS COMBINATIONS ON THE RATE OF INFLATION, AND THAT WE WILL HAVE SEVERAL MONTHS MORE OF QUITE RAPID INFLATION.

BUT WE BELIEVE IN 1974, AND PARTICULARLY IN THE SECOND HALF  
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OF 1974, WE WILL SEE A VERY MARKED SLOWDOWN IN THE RATE OF INFLATION, BECAUSE WE ARE LEAVING THESE FOUR BASIC FACTORS THAT CAUSED THE SURGE -- WE ARE LEAVING THEM BEHIND US.

ON THE FOOD SIDE WE HAVE BEEN EXPECTING A VERY BIG INCREASE IN OUR CROPS OF WHEAT, FEED GRAIN, AND SOYBEANS THIS YEAR. WE JUST HAD A NEW REPORT ON THE CROP. A CROP REPORT WAS RELEASED IN WASHINGTON YESTERDAY, WHICH SHOWS THAT WE'RE GOING TO HAVE A RECORD CORN CROPS, RECORD SOYBEANS CROPS. WE'VE ALREADY HAD A RECORD WHEAT CROP, AND FOR ALL THESE THINGS, THE NEW ESTIMATES RELEASED YESTERDAY ARE SOMEWHAT HIGHER THAN THE ESTIMATES THAT WE HAD A MONTH OR SO AGO. AND I DON'T REMEMBER THESE EXACT FIGURES. BUT ANYWAY, THE EXPECTATION THAT WE'RE GOING TO HAVE VERY MUCH BETTER CROPS THAN LAST YEAR IS BORNE OUT BY THESE LATEST FIGURES WHICH SHOULD BE QUITE RELIABLE

SINCE WE'RE GETTING QUITE CLOSE TO THE TIME OF HARVESTING  
THE CROPS.

NOW THE EFFECT OF THESE CROPS ON PRICES WILL NOT BE SEEN  
DIRECTLY FOR SIX OR NINE OR MORE MONTHS BECAUSE IT TAKES  
THAT LONG FOR THE ADDITIONAL CROPS OF FEEDGRAINS AND SOYBEANS  
TO BE TRANSLATED INTO MORE CHICKENS, MORE HOGS, AND MORE CATTLE).  
BUT THAT WILL SURELY COME, AND THAT WILL REDUCE THE --- AT  
LEAST RESTRAIN THE RATE OF INCREASE, IF NOT REDUCE THE PRICES  
OF FOOD PRODUCTS.

THE SECOND FACTOR WILL BE THE TAPERING OFF OF OUR OWN BOOM  
WHICH IS ALREADY BEING SEEN, AND WHICH, AS I INDICATED EARLIER,  
WE EXPECT TO CARRY ON THROUGH 1974, SO THAT WE WILL NOT HAVE  
THE SAME KIND OF PRESSURE OF VERY RAPID RISE OF DEMAND THAT  
WE HAD EARLIER.

THE THIRD ELEMENT IS THAT WE HAVE PASSED THE PERIOD OF THE  
U.S. DEVALUATION. WE HAVE HAD AN INCREASE IN THE VALUE OF  
THE DOLLAR RELATIVE TO OTHER CURRENCIES SINCE EARLY IN JULY  
WHICH HAS, IN FACT, RECAPTURED ABOUT 60 PERCENT OR SO OF THE  
DECLINE IN THE VALUE OF THE DOLLAR THAT OCCURRED  
SINCE THE BEGINNING OF THE YEAR. AND EVERY EXPECTATION I THINK  
IS THAT IF THERE ARE FUTURE CHANGES IN THE EXCHANGE RATE THAT  
IT WILL BE IN THIS DIRECTION OF A STRONGER DOLLAR WHICH MEANS  
SOME ANTI-INFLATIONARY EFFECT IN THE UNITED STATES.

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AND FINALLY WE SEE THE EFFORTS ALL OVER THE WORLD. IN JAPAN  
AND IN GERMANY, IN THE UNITED KINGDOM AND ELSEWHERE, TO SLOWDOWN  
THEIR INFLATIONS. AND THEIR ACTIONS, IN SO FAR AS IT IS  
SUCCESSFUL, WILL CONTRIBUTE TO RESTRAINING OUR INFLATION.

SO FOR ALL THESE REASONS, WE HAVE A GOOD DEAL OF CONFIDENCE  
THAT WE ARE GOING TO MOVE INTO A PERIOD OF MUCH MORE REASONABLE  
PRICE BEHAVIOUR.

WELL, PERHAPS THAT'S ENOUGH OF AN INTRODUCTION. I DON'T WANT TO  
USE UP YOUR TIME IF YOU HAVE QUESTIONS. SO WHY DON'T WE  
RECEIVE QUESTIONS NOW.

Q. MR. OHARA OF ASHI. WHAT WOULD BE YOUR OUTLOOK  
FOR THE INTERNATIONAL BALANCE OF PAYMENTS?

A. WELL, THE U.S. BALANCE OF PAYMENTS HAS IMPROVED  
MARKEDLY IN THE LAST YEAR. THE BALANCE OF PAYMENTS -- OUR  
DEFICIT AND THE BALANCE OF TRADE HAS DECLINED FROM ABOUT  
A BILLION SEVEN IN THE SECOND QUARTER OF 1972 TO ABOUT  
300 MILLION DOLLARS IN THE SECOND QUARTER OF 1973. WE HAVE

VARIOUS MEASUREMENTS, BUT THE EXTENT OF THE IMPROVEMENT IS ABOUT THE SAME IN ALL MEASURES. AND WE EXPECT TO SEE CONTINUED IMPROVEMENT IN A TRADE POSITION. WE EXPECT THAT FOR THE YEAR AS A WHOLE, WE WILL MOVE FROM SOMETHING -- A DEFICIT OF SOMETHING LIKE 7 BILLION DOLLARS LAST YEAR TO REASONABLY CLOSE TO BALANCE THIS YEAR. AND WE EXPECT THAT WE ARE ALSO GOING TO GET IMPROVEMENT ON SOME OF THE OTHER ELEMENTS OF THE ACCOUNTS, ESPECIALLY ON THE CAPITAL ACCOUNTS, AS CONFIDENCE IMPROVES IN THE DOLLAR, AND, AS PEOPLE ARE FINDING, AS MANY JAPANESE ARE FINDING, THAT THE U.S. IS AN ATTRACTIVE PLACE IN WHICH TO INVEST THESE DAYS.

SO WE THINK THE OUTLOOK IS VERY GOOD, AND WE THINK THAT IS REFLECTED IN THE STRENGTH OF DOLLAR. I THINK APPRECIATION OF THIS, AWARENESS OF THIS IS REFLECTED IN THE STRENGTH OF THE DOLLAR SINCE ARLY JULY.

Q. ONISHI OF NIKAN KOGYO. HOW DO YOU EVALUATE THE EFFECTS OF THE THIRD PASE SO FAR, AND HOW LONG WOULD YOU PLAN TO CONTINUE  
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THE PHASE.

A. WELL, WE ARE ON PHASE IV NOW, WHICH PERHPAS IS A COMMENT ON THE EFFECTIVENESS OF PHASE III. BUT, WELL, YOU WILL NOTICE, OR AT LEAST THE AMERICAN PRESS WILL NOTICE THAT IN MY LIST OF THE REASONS FOR THE BIG SURGE OF INFLATION IN THE FIRST HALF OF 1973 I DID NOT INCLUDE THE SHIFT FROM PHASE II TO PHASE III. BUT THE FACT IS THAT DURING PHASE III WE HAD A VERY BIG SURGE OF INFLATION WHICH LED US TO THINK THAT WE NEEDED TO TRY ONCE MORE A TIGHTER FORM OF PRICE CONTROL. PHASE IV HAS REALLY ONLY BEEN IN EXISTENCE -- HAS ONLY REALLY BEEN FULLY IN EXISTENCE SINCE SUNDAY NIGHT. SO WE'RE NOT QUITE ABLE TO APPRAISE IT. IT IS A SYSTEM WHICH WILL, WE THINK, SERVE A LIMITED BUT IMPORTANT FUNCTION. IT WILL TEND TO HOLD DOWN PRICES IN A NON-AGRICULTURAL SECTOR. I THINK WE HAVE FOUND THAT THE ATTEMPT TO HOLD DOWN PRICES IN A FARM SECTOR BY CONTROLS IS NOT PRODUCTIVE. IN FACT IT'S NEGATIVE IN ITS EFFECT. BUT THERE IS CERTAIN ROOM FOR HOLDING DOWN PRICES IN THE NON-FOOD SECTOR. AND FOR HOLDING DOWN PROFIT MARGINS. AND THAT THERE IS A CERTAIN DEGREE OF INFLUENCE THAT CAN BE EXERCISED OVER WAGES BY THIS KIND OF SYSTEM. AND WE EXPECT THAT TO CONTINUE. WE HAVE HOPES THAT IT WILL WORK, AND WE DON'T SEE ANYTHING IN OUR PAST EXPERIENCE TO THINK THAT IT WILL NOT WORK FOR A TEMPORARY PERIOD, IF WE DO NOT GET A VERY STRONG REVIVAL OF EXCESS DEMAND, WHICH WE DON'T EXPECT.

Q. .... (NO NAME GIVEN): I'D LIKE TO ASK A QUESTION:  
DO YOU ANTICIPATE, DR. STEIN, THAT IN THIS EFFORT TO CURB

INFLATION THAT THERE MIGHT BE SOME DANGER OF A  
FAIRLY RECESSION SLOWDOWN, OR ARE YOU CONFIDENT OF A  
SOFT LANDING IN THIS PROGRAM?

A. WELL I THINK ONE HAS TO RECOGNIZE THE DANGER - ESPECIALLY  
SINCE THE HISTORY OF THE ENDS OF BOOMS IS THAT THEY END  
WITH A LARGER OR DEEPER SLOWDOWN THAN ONE WOULD HAVE USUALLY  
LIKED. SO ONE HAS TO RECOGNIZE THE DANGER. BUT I THINK  
WE HAVE SOME REASON FOR HOPE THAT WE'RE GOING TO AVOID  
THAT.

I THINK THAT ONE THING THAT'S HELPING US IS THAT  
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THE COMING SLOWDOWN IS PROBABLY THE BEST ADVERTISED  
SLOWDOWN IN HISTORY. AND BUSINESS IS BEHAVING IN A VERY  
CAUTIOUS MANNER. WE ARE NOT HAVING A VERY MUCH INVENTORY  
ACCUMMULATION. AND THOSE WHO FORECAST A MORE SERIOUS  
SLOWDOWN THAN WE DO BASE THEIR FORECAST ON THE ASSUMPTION  
THAT WE WILL FIRST HAVE A PERIOD OF RAPID INVENTORY ACCUMMULATION  
FOLLOWED BY A REDUCTION OF INVENTORIES. BUT SO FAR  
WE HAVE NOT BEEN HAVING THE RAPID INVENTORY ACCUMMULATION.  
. . . AND THERE SEEMS TO BE A CERTAIN PROPENSITY  
OF THE BUSINESS COMMUNITY TO AVOID THAT.

I THINK WE ALSO HAVE A SOMEWHAT MORE DELICATE MANAGEMENT  
OF MONETARY POLICY THIS TIME THAN ON OTHER OCCASIONS.  
BUT STILL I THINK ONE HAS TO SAY THAT WE RECOGNIZE THE  
POSSIBILITY THAT THE SLOWDOWN WILL BE MORE THAN WOULD  
BE DESIRABLE, AND THAT WE HAVE TO BE ALERT TO TRY TO  
TURN POLICY AROUND IF WE SEEM TO BE GOING IN THAT WAY.

Q. SHIMIZU OF NIHON KEIZAI: HOW WOULD YOU FORESEE THE EFFECT  
UPON HOUSING SPENDING -- HOUSING INVESTMENT OF THIS COMING  
SLOWDOWN?

THIS IS ALSO TALKED ABOUT IN JAPAN, THAT AS A RESULT OF THE  
RESTRICTIVE MONETARY POLICY, THERE WOULD BE THE CREDIT CRUNCH  
WHICH WOULD HAVE A VERY ADVERSE EFFECT UPON HOUSING,  
INVESTMENT IN HOUSING.

A. WELL, WE ARE NOT HAVING WHAT IS USUALLY MEANT BY A  
"CREDIT CRUNCH". WE DO NOT HAVE A SITUATION IN WHICH CREDIT  
IS UNAVAILABLE. EVEN A SITUATION IN WHICH MORTGAGE CREDIT  
IS UNAVAILABLE, EXCEPT PERHAPS IN CERTAIN SPOTS. WE DO  
HAVE A SITUATION IN WHICH INTEREST RATES ARE HIGH BY OUR  
USUAL STANDARDS.  
WE DO EXPECT A DECLINE IN RESIDENTIAL CONSTRUCTION.  
WE ALREADY HAD THE BEGINNINGS OF THAT. AND THERE IS  
SOME DIFFERENCE OF OPINION AS TO HOW FAR IT IS LIKELY TO

GO.

WE HAVE BEEN OPERATING AT EXTREMELY HIGH RATES OF RESIDENTIAL CONSTRUCTION. I THINK OUR ESTIMATE IS THAT THE DECLINE WOULD BE RATHER MILD.

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HOWEVER, THIS IS AN INDUSTRY WHICH WE WATCH VERY CLOSELY, BOTH BECAUSE OF ITS EFFECT ON THE ECONOMY AS A WHOLE: AND BECAUSE THERE ARE A GREAT MANY PEOPLE INVOLVED IN IT WHO HAVE --- WHO ARE SPECIALIZED TO THIS INDUSTRY AND WE DON'T WANT TO PUT THAT PARTICULAR INDUSTRY THROUGH A GREAT DEPRESSION. SO THAT WE LOOK CONTINUOUSLY AND CLOSELY AT THE PROSPECTS FOR THIS INDUSTRY AND HAVE A NUMBER OF INSTRUMENTS IN THE HANDS OF THE FEDERAL GOVERNMENT THAT COULD BE USED AND WOULD BE USED IF WE THOUGHT THAT THE RATE OF HOUSING CONSTRUCTION WAS GOING TO FALL VERY FAR.

Q. YOMIURI SHIMBUN: YOU HAVE ADOPTED AN "INCOMES" POLICY FOR SOME TIME NOW, AND IT IS OFTEN SAID THAT ONCE YOU ARE IN IT IT IS VERY DIFFICULT FOR YOU TO GET OUT OF IT. SO, IN THAT RESPECT WHAT WOULD BE YOUR PROSPECTS ABOUT THE FUTURE OF "INCOMES" POLICY?

A. WELL IT'S CERTAINLY TRUE THAT ONCE YOU'RE IN IT, IT'S VERY DIFFICULT TO GET OUT OF IT, AND OUR FIRST SERIOUS STEP ON THE WAY OUT WAS ABORTIVE, AND WE HAD TO RETURN. BUT I DO THINK WE WILL GET OUT OF IT, FOR TWO REASONS:

ONE IS THE PROSPECT WHICH I'VE ALREADY GIVEN ABOUT THE REDUCTION OF THE RATE OF INFLATION. I THINK THAT IS A VERY SOLID FORECAST, AND WILL PROVIDE THE ATMOSPHERE IN WHICH WE CAN GET RID OF IT WITHOUT WORRYING. AFTER A CERTAIN POINT -- WITHOUT WORRYING THAT IT WILL -- THAT THE END OF IT WILL BE FOLLOWED BY A BIG UPSURGE OF INFLATION.

BUT ANOTHER THING THAT HAS HAPPENED IS THAT AS WE HAVE HAD EXPERIENCE WITH PRICE AND WAGE CONTROLS, THE OPPOSITION TO IT HAS BECOME STRONGER IN THE UNITED STATES: I THINK BOTH THE BUSINESS AND THE LABOUR COMMUNITY ARE EAGER TO GET FREE OF PRICE AND WAGE CONTROLS, AND THERE IS, I THINK, INCREASING REALIZATION ON THE PART OF CONSUMERS THAT PRICE CONTROLS ARE NOT AN UNMIXED BLESSING, BECAUSE THEY'RE LIKELY TO CAUSE SHORTAGES.

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SO I THINK THAT THE KIND OF UNRELIEVED PASSION OF THE AMERICAN PEOPLE FOR PRICE AND WAGE CONTROLS HAS COOLED. A GOOD DEAL IN THE LAST SEVERAL MONTHS.

Q. OSBORNE, DAILY TELEGRAPH, LONDON: IS IT YOUR IMPRESSION, SIR, THAT IN SPITE OF THE RECENT STRENGTH IN THE DOLLAR, THE DOLLAR IS STILL UNDervalued?

A. WELL I THINK SO. THAT IS I THINK THAT WE STILL HAVE SOME WAY TO GO IN DEMONSTRATING THE TURN-AROUND IN OUR BALANCE-OF-PAYMENTS. THAT PROBABLY AS LONG AS WE ARE IN -- EVEN HAVE SMALL DEFICITS THIS CAUSES A CERTAIN DOWNWARD PRESSURE ON THE DOLLAR WHICH WILL BE RELIEVED AS WE ACHIEVE THE OVERALL BALANCE OF AND SURPLUS THAT WE EXPECT. SO THAT -- EVERYBODY WAS ONCE AGREED THAT THE RATES WE HAD IN MARCH WERE JUST RIGHT. AND WE HAVE NO REASON TO THINK THAT AS LONG AS WE'RE BELOW THAT WE ARE NOT UNDervalued.

BUT OF COURSE IT'S VERY HARD TO TELL JUST WHAT IS THE ETERNALLY EQUILIBRIUM RATE OF THE DOLLAR OR ANY OTHER CURRENCY. THAT'S ONE REASON WE ARE INTERESTED IN A SYSTEM IN WHICH RATES CAN BE ADJUSTED. BUT WE THINK THAT THE DOLLAR WILL RISE FURTHER AS OUR BALANCE-OF-PAYMENTS IMPROVES FURTHER.

Q. (NO NAME) I WOULD LIKE TO ASK YOU A LITTLE BIT ABOUT YOUR BASIC APPROACH TOWARD ECONOMIC POLICY. AS WE TAKE IT, THE AMERICANS TRADITIONALLY UNDERESTIMATE THE IMPORTANCE OF THE THE EXTERNAL ECONOMICS. IN FORMULATING ECONOMIC POLICY. YOU TEND TO GIVE PREFERENCE TO DOMESTIC ECONOMIC POLICY BECAUSE YOUR EXTERNAL SECTOR IS RELATIVELY SMALL. AND YOU ALWAYS PUT EMPHASIS UPON DOMESTIC ECONOMY AT THE SACRIFICE OF THE EXTERNAL ECONOMY. AND AS A RESULT YOU EXPERIENCED THE RISE OF PROTECTIONISM, FOR EXAMPLE, HOWEVER, AS A RESULT OF YOUR EXPERIENCE OF DEVALUATION, YOU HAVE COME TO REALIE THAT THE EFFECT OF EXTERNAL ECONOMY, PARTICULARLY THE EFFECT OF THE PRICE OF IMPORTED GOODS IS LARGER THAN YOU EXPECTED. AND YOU ARE NOW IN THE PROCESS OF "REVIEWING" THE BAD PARTICULAR ASPECTS OF YOUR ECONOMIC POLICY. AND YOU'RE NOW BEGINNING TO PUT MORE EMPHASIS UPON "EXTERNAZ ECONOMIC POLICY.

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IS THIS OBSERVATION GENRALLY TRUE FROM THE VIEWPOINT OF CEA?

A. WELL I THINK THERE IS AN ELEMENT OF TRUTH IN WHAT YOU SAY,  
BUT I THINK THAT CERTAIN THINGS HAVE TO BE DISTINGUISHED.  
I THINK IT IS CORRECT TO SAY THAT WE HAVE UNDERESTIMATED  
THE EFFECT OF OUR EXTERNAL RELATIONS ON THE U.S. ECONOMY.  
BUT THAT DOES NOT IMPLY THAT WE HAVE SACRIFICED OUR  
EXTERNAL RELATIONS FOR THE SAKE OF THE U.S. ECONOMY.

WE HAVE CONSIDERED OUR EXTERNAL RELATIONS VERY IMPORTANT.  
WE HAVE CONSIDERED THEM A VERY IMPORTANT PART OF  
OUR TOTAL RELATIONS WITH THE REST OF THE WORLD. AND PERHAPS  
WE HAVE TENDED TO LOOK UPON THEM MORE AS A POLITICAL  
INSTRUMENT MORE THAN AN ECONOMIC INSTRUMENTS. BUT WE,  
I THINK LESS THAN ANYBODY ELSE, WE HAVE NOT MANIPULATED  
OUR FOREIGN ECONOMIC RELATIONS IN ORDER TO ACHIEVE SOME  
DOMESTIC OBJECTIVE. WE HAVE TENDED TO THINK THAT  
WE COULD ACHIEVE OUR DOMESTIC OBJECTIVES FAIRLY INDEPENDENTLY,  
AND OPERATE IN THE FOREIGN ECONOMIC FIELD IN A WAY WHICH  
WAS CONSISTENT WITH SOME OTHER NON-ECONOMIC OBJECTIVES.

SO I THINK YOU COULD SAY THAT FOR TWENTY YEARS AFTER  
THE WAR, WE . . . OUR FOREIGN ECONOMIC POLICY, OUR POLICY  
WITH RESPECT TO TARIFFS, OUR POLICY WITH RESPECT TO  
MONEY, AND PARTICULARLY OUR POLICY WITH RESPECT TO  
FOREIGN AID, WAS NOT DESIGNED TO DO SOMETHING FOR THE  
U.S. ECONOMY, BUT WAS DESIGNED TO DO SOMETHING FOR THE  
OUTSIDE WORLD, THAT WE THOUGHT WAS GOOD FOR THE OUTSIDE  
WORLD, AND GOOD FOR US IN A POLITICAL SENSE. IT WAS ONLY  
TOWARD THE END OF THAT PERIOD THAT WE BEGAN TO REALIZE  
THAT THESE THINGS HAD AN IMPORTANT EFFECT AT HOME.

SO, I THINK YOU SHOULDN'T CONFUSE AN UNDERESTIMATION  
OF THIS EFFECT OF THE OUTSIDE WORLD ON US WITH A TENDENCY  
TO DISREGARD THE INTERESTS OF THE OUTSIDE WORLD.

I THINK THAT THE IMMEDIATELY INTERESTING FACT IS THAT  
THE UNITED STATES, LIKE MANY OTHER COUNTRIES, HAS BECOME  
MUCH MORE AWARE IN THE LAST YEAR OF THE EXTENT TO WHICH  
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THE INFLATION PROBLEM IS A WORLDWIDE PROBLEM, WHICH LIMITS  
THE ABILITY OF ANY PARTICULAR COUNTRY TO SOLVE THE PROBLEM  
ALONE. AND AS A RESULT OF THAT, WE  
HAVE BECOME MUCH MORE INTERESTED IN THE POSSIBILITY OF  
CONCERTING EFFORTS, OR OTHERWISE WORKING TOGETHER TO  
SO THAT WE CAN SLOW DOWN THE WORLDWIDE INFLATION AND  
INCREASE THE ABILITY OF EACH COUNTRY TO SLOW DOWN ITS  
INFLATION.

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## Message Attributes

**Automatic Decaptioning:** X  
**Capture Date:** 01 JAN 1994  
**Channel Indicators:** n/a  
**Current Classification:** UNCLASSIFIED  
**Concepts:** n/a  
**Control Number:** n/a  
**Copy:** SINGLE  
**Draft Date:** 13 SEP 1973  
**Decaption Date:** 01 JAN 1960  
**Decaption Note:**  
**Disposition Action:** n/a  
**Disposition Approved on Date:**  
**Disposition Authority:** n/a  
**Disposition Case Number:** n/a  
**Disposition Comment:**  
**Disposition Date:** 01 JAN 1960  
**Disposition Event:**  
**Disposition History:** n/a  
**Disposition Reason:**  
**Disposition Remarks:**  
**Document Number:** 1973STATE182048  
**Document Source:** CORE  
**Document Unique ID:** 00  
**Drafter:** EUR/RPE: F. KINNELLY  
**Enclosure:** n/a  
**Executive Order:** N/A  
**Errors:** N/A  
**Film Number:** n/a  
**From:** STATE  
**Handling Restrictions:** n/a  
**Image Path:**  
**ISecure:** 1  
**Legacy Key:** link1973/newtext/t19730936/aaaabao.tel  
**Line Count:** 494  
**Locator:** TEXT ON-LINE  
**Office:** ORIGIN EUR  
**Original Classification:** UNCLASSIFIED  
**Original Handling Restrictions:** n/a  
**Original Previous Classification:** n/a  
**Original Previous Handling Restrictions:** n/a  
**Page Count:** 9  
**Previous Channel Indicators:**  
**Previous Classification:** n/a  
**Previous Handling Restrictions:** n/a  
**Reference:** n/a  
**Review Action:** RELEASED, APPROVED  
**Review Authority:** smithrj  
**Review Comment:** n/a  
**Review Content Flags:**  
**Review Date:** 12 OCT 2001  
**Review Event:**  
**Review Exemptions:** n/a  
**Review History:** RELEASED <12-Oct-2001 by maustmc>; APPROVED <13 MAR 2002 by smithrj>  
**Review Markings:**

Declassified/Released  
US Department of State  
EO Systematic Review  
30 JUN 2005

**Review Media Identifier:**  
**Review Referrals:** n/a  
**Review Release Date:** n/a  
**Review Release Event:** n/a  
**Review Transfer Date:**  
**Review Withdrawn Fields:** n/a  
**Secure:** OPEN  
**Status:** NATIVE  
**Subject:** NEWS CONFERENCE OF MR. STEIN  
**TAGS:** OVIP, (SHULTZ, GEORGE)  
**To:** EC BRUSSELS OECD PARIS  
**Type:** TE  
**Markings:** Declassified/Released US Department of State EO Systematic Review 30 JUN 2005